

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Buchanan District Library</u>	County Berrien
Audit Date June 30, 2004	Opinion Date October 8, 2004	Date Accountant Report Submitted To State: December 15, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

Buchanan District Library

**Financial Report
with Supplemental Information
June 30, 2004**

Buchanan District Library

Contents

Report Letter	1
Management's Discussion and Analysis	2-6
Basic Financial Statements – Government-wide / Governmental Fund	
Governmental Fund Balance Sheet / Statement of Net Assets	7
Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance / Statement of Net Assets	8
Notes to Financial Statements	9-17
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	18

Independent Auditor's Report

To the Buchanan District Library Board
Buchanan, Michigan

We have audited the accompanying basic financial statements of the Buchanan District Library as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Buchanan District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Buchanan District Library as of June 30, 2004 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Required Supplementary Information presented on page 18 are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 1 to the financial statements, the Buchanan District Library adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*, as of July 1, 2003.

Plante & Moran, PLLC

October 8, 2004

Buchanan District Library

Management's Discussion and Analysis

Basic Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, and Required Supplementary Information. In the Basic Financial Statements, information is included that presents two different views of the Buchanan District Library:

- The first column of the financial statements includes information on Buchanan District Library's General Fund under the modified accrual method. These Fund Financial Statements focus on current financial resources and provide a more detailed view about the accountability of Buchanan District Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method. (See Note 2)
- The Statement of Governmental Revenue, Expenditures and Changes in Fund Balance and Statement of Activities columns provide both long-term and short-term information about Buchanan District Library's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of Buchanan District Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The Basic Financial Statements also include Notes that explain some of the information in the financial statements and provide more detailed data.

The Required Supplementary Information section follows the Basic Financial Statements and further explains and supports the information in the financial statements.

Buchanan District Library

Management's Discussion and Analysis (Continued)

Condensed Financial Information

Since this is the first year the Buchanan District Library is implementing GASB 34, a comparison with the previous year's financial information is not possible. Future reports will contain comparative information.

	<u>2004</u>
Current assets	\$ 177,365
Capital assets	<u>765,063</u>
Total assets	942,428
Long-term debt	435,000
Other liabilities	<u>65,784</u>
Total liabilities	500,784
Net assets:	
Investment in general capital assets, net of debt	295,063
Unrestricted	<u>147,581</u>
Total net assets	<u>\$ 442,644</u>
Revenue:	
Property taxes	\$ 241,607
Other	<u>141,230</u>
Total revenue	382,837
Expenses - Library services	<u>378,175</u>
Changes in net assets	<u>\$ 4,662</u>

Buchanan District Library

Management's Discussion and Analysis (Continued)

Buchanan District Library as a Whole

- Buchanan District Library's net assets increased by \$3,662 this year. The two primary reasons for the increase are: library fine contribution increase of 26.9%, and the continued growth of the library's property tax base, which increased 2.8% from the prior year.
- Buchanan District Library's primary source of revenue is from property taxes, which represents 63% of total revenue. The second most important source of revenue comes from Library fines (including penal fines) which comprise 27% of total revenue. Penal fines are unpredictable and vary yearly depending on police activity and court costs.
- Personnel expenses are a significant cost to Buchanan District Library, representing 53% of total expenditures. This year expenses were particularly high due to paying prior years' retirement liability in this fiscal year. All full-time employees are required to contribute to the Library retirement fund with Michigan Employees Retirement System (MERS) along with employer contributions as required by the plan. Because the Library had originally adopted the MERS plan while a department of the City of Buchanan, a new account had to be established specifically for Buchanan District Library employees. During the time required to set up the plan, arrange for a transfer of funds from the City of Buchanan account to the Buchanan District Library account, and arrange for payments, liabilities for previous years accrued. Payments were made in this fiscal year to cover those accruals. Increases are also due to one employee moving from part-time to full-time employment and the addition of one part-time position. Additional costs are a result of increasing costs for fringe benefits such as health insurance and workers' compensation insurance as well as modest increases in hourly wages.
- Depreciation expense represents 18% of Buchanan District Library's total expenditures. This is the first year depreciation expense has been taken.
- Debt service interest of 9% of total expenditures is high because of an extra interest payment made in this fiscal year for a beginning interest-only payment that was not billed in 2002. Please see the schedule of future principal and interest payments in Note 6 of Notes to Financial Statements for future payment amounts.

An analysis of Buchanan District Library's major fund is included in the Financial Statements in the first column of the respective statements. The fund column provides detailed information about the most significant fund – not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund decreased during the current year by \$11,408. While an increase had been budgeted, the increase in personnel costs and debt service discussed above resulted in the variance from budget.

Buchanan District Library

Management's Discussion and Analysis (Continued)

Buchanan District Library as a Whole (Continued)

Personnel expenses are the largest use of resources for this fiscal year. This reflects the fact that Buchanan District Library is a service industry that relies on its staff to fulfill the mission of the organization. Personnel costs are expected to be lower in following years since the MERS account is now established and funded.

Library Budgetary Highlights

Over the course of the year the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in Library fine income, property tax income, personnel expenses, media, and contractual expenses.

The increase in Library fine income was nearly 27% and came as a result of an increase in Berrien County penal fine collections. It is difficult to predict exact property tax collection amounts before the Headlee rollback fraction is known, so the budget was originally passed with conservative estimates for tax collections. As amounts became known, adjustments were made by budget amendment.

Personnel expenses were high because of the MERS adjustment as previously mentioned and that fringe and salaries adjustments were required because of increases in both areas.

Contractual expenses rose because of an increase in the negotiated fee for HVAC service, a new contract with our Internet Service Provider, an increase in the contractual cost of our telephone system, and other contract increases. The amount spent on media was increased by \$10,000 when penal fines were received in excess of anticipated amounts. The Board determined this to be the best use of the additional funds. As media amounts increase, library supplies must also increase and the library supplies account was amended to reflect this reality.

The Jack Knight Café is a new venture for the Library that began in December 2003. Since start-up costs for the café had not been included in the original budget, amendments were necessary to cover both costs and sales.

Capital Assets and Debt Administration

At the end of the fiscal year, Buchanan District Library had \$1.14 million invested in land, building, furniture and equipment, and books and materials. During the fiscal year, Buchanan District Library added \$3,233 in furniture and fixtures mainly for start-up costs for the Jack Knight Café, and \$48,750 added in books and materials. Buchanan District Library spent approximately \$35,000 for books and materials and received in-kind donations amounting to \$13,750 for items that were added to the collection.

Buchanan District Library's debt rating is excellent. No debt was issued during this fiscal year. Bonded indebtedness for Buchanan District Library totaled \$470,000 at June 30, 2004.

Buchanan District Library

Management's Discussion and Analysis (Continued)

Future Operating Plans

The Library Board is currently investigating options for the replacement or upgrade of the building's heating and cooling system. The Board has received one proposal for an upgrade of the air-conditioning system and another proposal for a complete replacement of the HVAC system. Other proposals are in process and will be evaluated as received. Although there is no equipment failure at this time, because of the age of the equipment, the Library Board is planning for the long-range requirements of the building.

The Library Board voted on October 20, 2004 to accept on principle the inclusion of the Buchanan Art Center in the building. They are currently negotiating a lease with the Buchanan Art Center for a portion of the second floor and a portion of the basement of the building. The Buchanan Art Center has filed for a 501 c (3) status. The Art Center would be a completely autonomous organization that would contribute to the payments of utilities and expenses of the building. For the Buchanan Art Center to locate in the building, modifications to the building must be made to conform to ADA requirements. Funds for those modifications would be shared equally between the Art Center and the Library. All other renovations required by the Art Center to enable them to operate in this location would be the responsibility of the Art Center or as negotiated in the forthcoming lease.

Buchanan District Library

Governmental Fund Balance Sheet / Statement of Net Assets June 30, 2004

	General Fund, Modified Accrual Basis	Adjustments (Note 2)	Statement of Net Assets, Full Accrual Basis
Assets			
Cash and cash equivalents (Note 4)	\$ 177,365	\$ -	\$ 177,365
Capital assets (Note 5)	-	765,063	765,063
Total assets	<u>\$ 177,365</u>	<u>\$ 765,063</u>	942,428
Liabilities			
Accounts payable and accrued liabilities	\$ 21,665	\$ 1,000	22,665
Long term liabilities (Note 6):			
Bonds payable, due within one year	-	35,000	35,000
Bonds payable, due after one year	-	435,000	435,000
Accumulated employee benefits	-	7,119	7,119
Total liabilities	21,665	478,119	499,784
Fund Balance/Net Assets			
Fund balance:			
Unreserved, undesignated	155,700	(155,700)	-
Total fund balance	155,700	(155,700)	-
Total liabilities and fund balance	<u>\$ 177,365</u>	<u>\$ 322,419</u>	499,784
Net assets			
Invested in capital assets - Net of related debt		\$ 295,063	295,063
Unrestricted		148,581	148,581
Total net assets		<u>\$ 443,644</u>	<u>\$ 443,644</u>

Buchanan District Library

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance / Statement of Activities Year Ended June 30, 2004

	General Fund, Modified Accrual Basis	Adjustments (Note 2)	Statement of Activities, Full Accrual Basis
Revenue			
Property taxes	\$ 241,607	\$ -	\$ 241,607
Local grants	1,141	-	1,141
Interest income	1,967	-	1,967
Library co-op	8,531	-	8,531
Library fines	103,699	-	103,699
Contributions from other governmental units	1,000	-	1,000
Donations	19,836	-	19,836
Other	5,056	-	5,056
Total revenue	382,837	-	382,837
Expenditures			
Personnel	202,922	(1,291)	201,631
Supplies	6,595	-	6,595
Community promotion	3,392	-	3,392
Insurance and bonds	5,780	-	5,780
Public utilities	26,294	-	26,294
Repairs and maintenance	8,943	-	8,943
Audio visual, books and periodicals	48,750	(48,750)	-
Capital expenditures	3,233	(3,233)	-
Depreciation	-	67,204	67,204
Debt service principal	30,000	(30,000)	-
Debt service interest	34,848	-	34,848
Contractuals	13,917	-	13,917
Accounting fees	5,914	-	5,914
Miscellaneous	3,657	-	3,657
Total expenditures	394,245	(16,070)	378,175
Excess/(Deficiency) of Revenue Over Expenditures	(11,408)	16,070	4,662
Fund Balance/Net Assets - July 1, 2003	167,108	270,874	437,982
Fund Balance/Net Assets - June 30, 2004	\$ 155,700	\$ 286,944	\$ 442,644

Buchanan District Library

Notes to Financial Statements June 30, 2004

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Reporting Entity

The Buchanan District Library (the "Library") is located in the City of Buchanan, Michigan and is governed by an appointed seven-member board. The Library is primarily funded through a tax levy, fines and fees and charitable donations. Revenue is used to operate and staff the Library. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

The accounting policies of Buchanan District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective July 1, 2003, the Buchanan District Library implemented the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section, which provides an analysis of the Library's overall financial position and results of operations, has been included in the financial statements.
- The financial statements have been prepared using full accrual accounting for all of the Library's activities.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major fund).

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

The Library reports only one major governmental fund – the General Fund.

Financial Statement Amounts

Bank Deposits and Investments - The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Buchanan District Library

Notes to Financial Statements June 30, 2004

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated life of more than one year, and all books are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repair and maintenance are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Furniture and equipment	10 years
Library books - reference	10 years
Library books - hard cover	5 years
Library books - soft cover	3 years

Long-term Obligations - In the government-wide financial statements, long-term debt is reported as a long-term liability. In the fund financial statements, the repayment of debt principal is reported as an expenditure.

Property Tax Revenue - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2003 ad valorem tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Library totaled \$201.6 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which ad valorem taxes levied consisted of 1.1769 mills for operations and debt service. This resulted in revenue of \$241,600, recognized in the General Fund financial statements as tax revenue.

Buchanan District Library

Notes to Financial Statements June 30, 2004

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

The General Fund's fund balance and the net change in fund balance differ from net assets and change in net assets reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the General Fund balance sheet and statement of revenue, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 155,700
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	765,063
Compensated absences are included as a liability	(8,119)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(470,000)
Total Net Assets - Full Accrual Basis	<u>\$ 442,644</u>

Buchanan District Library

Notes to Financial Statements June 30, 2004

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net Change in Fund Balances - Modified Accrual Basis	\$ (11,408)
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Amounts reported in the statement of activities are different because:

General Fund reports capital outlays as expenditures in the statement of activities; these costs are allocated over their estimated useful lives as depreciation:

Library books, material, and equipment	51,983
Depreciation	(67,204)

Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund financial statements	1,291
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Principal payments on long-term liabilities is an expenditure on the fund statements	<u>30,000</u>
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Change in Net Assets - Full Accrual Basis	<u>\$ 4,662</u>
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Note 3 - Budget Information

The annual budget is prepared by the Library Treasurer and adopted by the Library Board; subsequent amendments are approved by the Library Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Buchanan District Library

Notes to Financial Statements June 30, 2004

Note 3 - Budget Information (Continued)

The budget has been adopted on a line item basis; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. The budget as adopted is presented in the required supplemental information, and includes expenditure budget overruns.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Library incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual
Audio visual, book and periodicals	\$ 35,000	\$ 48,750
Personnel	178,455	202,921
Debt Payments	51,558	64,848

The personnel overrun was due to the Library establishing a MERS account. MERS conducted an actuarial study and determined the Library's liability to fund the new account. The Library did not budget for payments, or accrue any liabilities, until this study was completed. The debt payments overrun was due to an extra bond interest payment. The holder of the bonds determined that the first bond payment was never made and requested payment during the fiscal year. The Library made this payment, but it was related to a different budget year, and was not included in the current fiscal year budget.

Note 4 - Deposits and Investments

The Library's cash and cash equivalents at June 30, 2004 consist of the following:

Bank Deposits	\$ 177,365
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The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$192,178. The entire amount was covered by federal depository insurance.

Buchanan District Library

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

Governmental Activities	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated -				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Capital assets being depreciated:				
Building	651,253	500	-	651,753
Furniture and equipment	58,454	2,733	-	61,187
Library books, periodicals, and videos	365,121	48,750	-	413,871
Total	1,074,828	51,983	-	1,126,811
Accumulated depreciation	304,544	67,204	-	371,748
Net capital assets being depreciated	770,284	(15,221)	-	755,063
Net capital assets	\$ 780,284	\$ (15,221)	\$ -	\$ 765,063

Note 6 - Long-term Liabilities

Outstanding Debt

A summary of the debt outstanding of the Library at June 30, 2004 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Bonds payable - General obligation bonds	\$ 500,000	\$ -	\$ (30,000)	\$ 470,000	\$ 35,000
Other long-term liabilities - Compensated absences	9,410	-	(1,291)	8,119	1,000
	<u>\$ 509,410</u>	<u>\$ -</u>	<u>\$ (31,291)</u>	<u>\$ 478,119</u>	<u>\$ 36,000</u>

Buchanan District Library

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2004 (excluding employee benefits), including principal and interest, are as follows:

Years Ending June 30	Principal	Interest	Total
2005	\$ 35,000	\$ 20,478	\$ 55,478
2006	35,000	19,183	54,183
2007	35,000	17,853	52,853
2008	35,000	16,488	51,488
2009	35,000	15,070	50,070
2010 - 2014	205,000	50,400	255,400
2015 - 2016	90,000	6,300	96,300
Total	<u>\$ 470,000</u>	<u>\$ 145,772</u>	<u>\$ 615,772</u>

Interest

Interest expense of the Library for the year ended June 30, 2004 approximated \$35,000.

Note 7 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for medical benefit claims and property liability. The Library participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past fiscal year.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Buchanan District Library

Notes to Financial Statements June 30, 2004

Note 8 - Defined Benefit Retirement Plan

The Library contributes to the Municipal Employees' Retirement System (MERS), a cost-sharing multiple employer defined benefit pension plan. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The system issues a publicly available financial report. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

The obligation to contribute to and maintain the system for these employees was established by a resolution of the Board of Trustees and requires a contribution from the employees of 5 percent of gross wages.

Subsequent to year end, MERS has completed an actuarial study for the time period of August 2003 through August 2004. The Library's actuarial required rate was 5.1 percent according to the study. The payment for this time period was made subsequent to year end, and is accrued in the financial statements. A liability also still exists for the time period of January 2003 to July 2003. MERS is currently conducting an actuarial study for this time period, and the estimated liability is accrued in the financial statements.

The required valuation information has been omitted from these basic financial statements due to the fact that final information is not available. The Library's participation in this plan is new and final information is expected in the upcoming months.

Required Supplemental Information

Buchanan District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property tax	\$ 222,355	\$ 241,605	\$ 241,607	\$ 2
Library Fines	81,500	103,536	103,699	163
State aid	7,247	8,531	8,531	-
Local Grants	2,716	2,394	1,141	(1,253)
Interest Income	4,000	1,500	1,967	467
Other Revenue	4,360	5,760	5,056	(704)
Donations	4,500	5,300	19,836	14,536
Contributions from other government units	1,000	1,000	1,000	-
Total revenue	327,678	369,626	382,837	13,211
Expenditures				
Personnel	173,988	178,455	202,922	(24,467)
Audio Visual, Books & Periodicals	25,000	35,000	48,750	(13,750)
Supplies	5,250	6,950	6,595	355
Miscellaneous Expenses	4,236	5,457	3,657	1,800
Maintenance and repairs	7,850	7,250	8,943	(1,693)
Utilities	28,250	29,000	26,294	2,706
Insurance	5,087	5,837	5,780	57
Equipment	-	-	3,233	(3,233)
Contractual services	10,140	14,075	13,917	158
Accounting and Audit Fees	5,800	5,685	5,914	(229)
Community Promotions	3,500	3,500	3,392	108
Debt Principal Payments	51,558	51,558	64,848	(13,290)
Total expenditures	320,659	342,767	394,245	(51,478)
Excess of Revenue Over (Under) Expenditures	7,019	26,859	(11,408)	(38,268)
Fund Balance - July 1, 2003	167,108	167,108	167,108	-
Fund Balance - June 30, 2004	<u>\$ 174,127</u>	<u>\$ 193,967</u>	<u>\$ 155,700</u>	<u>\$ (38,268)</u>



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Members of the Board of Trustees
Buchanan District Library
Buchanan, Michigan 49107

In connection with our audit of the books and records of the Buchanan District Library for the fiscal year ended June 30, 2004, we offer the following comments and recommendations.

New Report Format

As you are probably aware, the format of this year's financial statements looks slightly different than in years past. During 2003/2004, the Library adopted the requirements of the new Governmental Accounting Standard Board Standard #34. Most noticeably, your financial statements begin with a new section, Management Discussion and Analysis. The Balance Sheet, or Statement of Net Assets, is now on the full accrual basis and includes all capital assets and long term debt. The Statement of Activities is also reported on the full accrual basis. This means items like capital expenditures and debt principal payments are no longer expensed. There are also several changes to the Notes to Financial Statements. We would be happy to discuss these changes further at your convenience.

Defined Benefit Retirement Plan

While the Library had adopted the provisions to establish a retirement plan some time ago, the Library did not make a payment to the plan during the fiscal year under audit. However, the expense was recognized and accrued during the year ended June 30, 2004. It is our understanding that an initial payment was made in early fall of 2004. However, there is still an amount due and not paid. While the expense has been recognized, the cash payment will still take place in the future. Therefore, as the Library budgets cash flows, it should remember that this cash outflow will exceed the amount budgeted as an expenditure in the 2004/2005 fiscal year.

ACH Policy

Public Act 738 allows local units of government to make and accept electronic funds transfers (ACH payments), provided the local unit has a formal policy. To date, the Library has not adopted such a policy. We highly recommend the Library implement this policy as soon as possible to be in compliance with P.A. 738. We have provided a sample policy to Library management.

Credit Card Policy

The Library has recently acquired and began using a credit card for various purchases. While credit cards are mentioned in the Library's purchasing policy, we recommend that the required elements of a credit card policy be compared to the current purchasing policy to ensure full compliance with State law. We have also provided a listing of these minimum requirements to management for your reference.

We appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

Plante & Moran, PLLC

October 8, 2004

List of fields to be inserted throughout report:

Bookmark name	Values
	(Hit [Insert] [Field], Choose 'Ref', 'Options'; Select the bookmark name, then select switch "h")
Name	Buchanan District Library
Name Formal	Buchanan District Library (See directions below:)
NamePossesive	Buchanan District Library's
ShortName	Library
ShortNamePossesive	Library's
Year End	June 30, 2004
Prior Year	June 30, 2003
Opinion Date	October 8, 2004
Examples of how to use the "Name Formal" field:	<p>Cities, Villages & Counties:</p> <p><i>City of Sample, Michigan</i></p> <p>Townships:</p> <p>Charter Township of Sample, Sample County, Michigan</p>

Use [Shift] [Enter] to create the new line